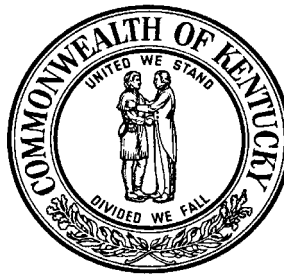


**REPORT OF THE AUDIT OF THE
MUHLENBERG COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

June 23, 2003



EDWARD B. HATCHETT, JR.
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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Debra Eucker, Commissioner, Department of Law, Revenue Cabinet

Honorable Rodney Kirtley, Muhlenberg County Judge/Executive

Honorable Jerry Mayhugh, Muhlenberg County Sheriff

Members of the Muhlenberg County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the Muhlenberg County Sheriff's Settlement - 2002 Taxes as of June 23, 2003.

We engaged Ross & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC, evaluated the Muhlenberg County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
MUHLENBERG COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

June 23, 2003

**ROSS & COMPANY, PLLC
Certified Public Accountants**

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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
MUHLENBERG COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

June 23, 2003

Ross & Company, PLLC, has completed the audit of the Sheriff's Settlement - 2002 Taxes for Muhlenberg County Sheriff as of June 23, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$7,696,789 for the districts for 2002 taxes, retaining commissions of \$260,902 to operate the Sheriff's office. The Sheriff distributed taxes of \$7,421,524 to the districts for 2002 Taxes. Taxes of \$60 are due to the districts from the Sheriff and refunds of \$209 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$768,438 To Protect Deposits
- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were not insured and collateralized by bank securities or bonds.

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Honorable Jerry Mayhugh, Muhlenberg County Sheriff

Members of the Muhlenberg County Fiscal Court

Independent Auditor's Report

We have audited the Muhlenberg County Sheriff's Settlement - 2002 Taxes as of June 23, 2003. This tax settlement is the responsibility of the Muhlenberg County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Muhlenberg County Sheriff's taxes charged, credited, and paid as of June 23, 2003, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 23, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Debra Eucker, Commissioner, Department of Law, Revenue Cabinet
Honorable Rodney Kirtley, Muhlenberg County Judge/Executive
Honorable Jerry Mayhugh, Muhlenberg County Sheriff
Members of the Muhlenberg County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$768,438 To Protect Deposits
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive, flowing style.

Ross & Company, PLLC

Audit fieldwork completed -
October 23, 2003

MUHLENBERG COUNTY
JERRY MAYHUGH, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

June 23, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 595,380	\$ 777,802	\$ 3,216,345	\$ 873,655
Tangible Personal Property	72,902	106,389	371,056	265,282
Intangible Personal Property				86,352
Fire Protection	1,401			
Increases Through Exonerations	128	168	681	283
Omitted Taxes	10,458	12,527	56,496	15,346
Franchise Corporation	179,185	243,575	927,578	
Additional Billings	946	1,137	5,108	1,387
Unmined Coal - 2002 Taxes	11,146	13,350	60,211	16,355
Oil and Gas Property Taxes	4,082	4,890	22,054	5,990
Limestone, Sand, and Mineral Reserves	149	179	808	219
Bank Franchises	97,658			
Penalties	7,239	9,305	38,956	12,068
Adjusted to Sheriff's Receipt	265		(2)	149
Gross Chargeable to Sheriff	<u>\$ 980,939</u>	<u>\$ 1,169,322</u>	<u>\$ 4,699,291</u>	<u>\$ 1,277,086</u>
<u>Credits</u>				
Exonerations	\$ 10,710	\$ 13,983	\$ 57,706	\$ 16,210
Discounts	11,701	12,885	52,131	18,470
Delinquents:				
Real Estate	24,001	32,022	129,523	35,182
Tangible Personal Property	659	959	3,343	3,157
Intangible Personal Property				335
Unmined Coal - 2002 Taxes	550	659	2,970	807
Delinquent Additional Bills	50	59	268	73
Delinquent Oil	158	190	856	232
Total Credits	<u>\$ 47,829</u>	<u>\$ 60,757</u>	<u>\$ 246,797</u>	<u>\$ 74,466</u>
Taxes Collected	\$ 933,110	\$ 1,108,565	\$ 4,452,494	\$ 1,202,620
Less: Commissions *	<u>39,945</u>	<u>47,114</u>	<u>122,444</u>	<u>51,399</u>
Taxes Due	\$ 893,165	\$ 1,061,451	\$ 4,330,050	\$ 1,151,221
Taxes Paid	891,539	1,059,930	4,321,552	1,148,503
Refunds (Current and Prior Year)	<u>1,590</u>	<u>1,637</u>	<u>8,563</u>	<u>2,722</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 36</u>	<u>\$ (116)</u>	<u>\$ (65)</u>	<u>\$ (4)</u>

*and ** See Page 4.

The accompanying notes are an integral part of this financial statement.

MUHLENBERG COUNTY
 JERRY MAYHUGH, COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2002 TAXES
 June 23, 2003
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	3,234,295
2.75% on	\$	4,452,494

** Special Taxing Districts:

Library District	\$	(4)
Health District		(15)
Extension District		(13)
Soil Conservation District		(32)
Airport District		(18)
East Fork Pond River District		(15)
Flood Plain District		(4)
Upper Bond District		21
Pond Creek District		(39)
Mud River District		<u>3</u>
Due Districts or (Refunds Due Sheriff)	\$	<u><u>(116)</u></u>

The accompanying notes are an integral part of this financial statement.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT

June 23, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 9, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$768,438 of public funds uninsured and unsecured.

MUHLENBURG COUNTY
 NOTES TO FINANCIAL STATEMENT
 August 18, 2003
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 9, 2002.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by the county official's agent in the county official's name	
Collateralized with securities held by pledging depository institution in the county official's name	4,742,375
Uncollateralized and uninsured	<u>768,438</u>
Total	<u><u>\$ 5,610,813</u></u>

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 20, 2002 through April 25, 2003.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2002. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 16, 2002 through April 25, 2003.

Note 4. Interest Income

The Muhlenberg County Sheriff earned \$2,413 as interest income on 2002 taxes. As of October 23, 2003, the Sheriff owes \$36 in interest to the school district and is due \$38 in interest from his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Muhlenberg County Sheriff collected \$42,037 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

MUHLENBURG COUNTY
NOTES TO FINANCIAL STATEMENT
August 18, 2003
(Continued)

Note 6. Advertising Costs And Fees

The Muhlenberg County Sheriff collected \$3,384 of advertising costs and \$4,490 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

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COMMENTS AND RECOMMENDATIONS

MUHLENBERG COUNTY
JERRY MAYHUGH, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

As of June 23, 2003

STATE LAWS AND REGULATIONS:

The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$768,438 To Protect Deposits

On December 9, 2002, \$768,438 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

None.

INTERNAL CONTROL:

Lacks Adequate Segregation Of Duties

Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. The Sheriff has primarily assigned one deputy to perform all of the accounting functions of the office. We recommend that the Sheriff assign someone else to periodically review this work in order to create compensating controls to offset this internal control weakness. Examples of compensating controls are: 1) comparing source documents to the receipts and disbursements ledgers and to the monthly tax reports; 2) having deposits compared to the receipts ledger and bank statements; and 3) recounting the funds collected and making the tax deposit.

Sheriff's Response:

None.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

ROSS & COMPANY, PLLC
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To the People of Kentucky

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Members of the Muhlenberg County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Muhlenberg County Sheriff's Settlement - 2002 Taxes as of June 23, 2003, and have issued our report thereon dated October 23, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Muhlenberg County Sheriff's Settlement -2002 Taxes as of June 23, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$768,438 To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Muhlenberg County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in black ink.

Ross & Company, PLLC

Audit fieldwork completed -
October 23, 2003

